



MINUTES OF THE BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES, STATE OF CALIFORNIA

Violet Varona-Lukens, Executive Officer
Clerk of the Board of Supervisors
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Auditor-Controller
Chief Administrative Officer
County Counsel

At its meeting held November 1, 2005, the Board took the following action:

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The following statement was entered into the record for Supervisors Yaroslavsky and Antonovich:

“The Auditor-Controller has released his report on certain County leasing transactions for Department of Public Social Services facilities. In the report, the Auditor-Controller indicates that the United States Department of Health and Human Services Division of Cost Allocation (HHS) has raised questions concerning the lease structures at four of these facilities. HHS has expressed concern about the appropriateness of operating leases for subvented programs, and about the allowability of lease costs at the four facilities.

“In response, the Auditor-Controller advised HHS that the County accepts the conclusions indicated in the HHS letter and is taking various actions to bring our existing and future leases into conformity with Federal requirements. The Auditor-Controller also proposed to this Board that in the future, his office be required to review all leases that involve subvention by third parties to ensure federal and State guidelines are followed.

“The Board should formally adopt the Auditor-Controller’s recommendations. The Board should also instruct its staff to review the leases in question and to recommend any legal or administrative action available to the County at this time to recoup revenues lost as a result of the HHS recommendations.”

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Therefore, on at the suggestion of Supervisor Yaroslavsky, and on motion of Supervisor Antonovich, seconded by Supervisor Knabe, unanimously carried (Supervisor Yaroslavsky being absent), the Board took the following actions:

1. Approved the recommendations, contained in the Auditor-Controller's attached letters of October 18, 2005 to the Board and to the United States Department of Health and Human Services Division of Cost Allocation (HHS), regarding certain County leasing transactions for four Department of Public Social Services (DPSS) facilities, which HHS expressed concern about the appropriateness of operating leases for subvented programs and the allowability of lease costs at the four DPSS facilities, as follows:
 - The Auditor-Controller will be required to review all leases that involve subvention by third parties to ensure Federal and State guidelines are followed;
 - The County will develop a formal policy of using capital leases when entering into long-term build-to-suit leases where the County intends to operate reimbursable programs over an extended period of time;
 - The Auditor-Controller will work with the County's Department of Public Social Services (and all other departments, as applicable) to make all requested adjustments to reimbursement claims that have previously been filed on the four facilities;
 - For the lease terms of the four facilities, the County agrees to claim the lower of its actual costs or the reimbursement levels;
 - The County will ensure the adequacy of documentation when procuring building space, including build-to-suit leases, including the criteria used to select the recommended proposal and the reasons for any variances from the County's standard Request for Proposals procedures;
 - The County will institute procedures to specifically demonstrate and document compliance with Federal guidelines and the State's *Handbook of Cost Plan Procedures for California Counties* when entering into building space rental agreements;

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- The County will ensure that the contractor for the West Pico Boulevard lease, and for other leases as applicable, requires the Trustee to establish the Operation and Maintenance Reserve Fund and the Renewal and Replacement Fund as required by the lease;
 - At the end of each fiscal year, the County will assign responsibility to reconcile payments made for operation and maintenance expenses for all leases requiring the County to pay those expenses to actual expenditures incurred for the fiscal year and adjust the payments accordingly; and
 - The County will ensure that the Trustee keeps any County additional Payments and Reserve Fund interest not needed to pay current expenses in the Trustee's Operation and Maintenance Fund to pay future expenses or in the Operation and Maintenance Reserve Fund; and
2. Instructed the Chief Administrative Officer and County Counsel to review the four DPSS leases and recommend any legal or administrative action available to the County at this time to recoup revenues lost as a result of the HHS recommendations.

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Attachment

Copies distributed:

Each Supervisor
Director of Public Social Services